COMMITTEE ON THE BUDGET
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BASICS OF THE BUDGET PROCESS
A BRIEFING PAPER

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SUMMARY

This document provides a basic primer on the congressional budget process. It also contains several appendices with additional background information. The contents of the document are as follows:

THE CONGRESSIONAL BUDGET PROCESS

The process for building the budget is set forth in the Congressional Budget and Impoundment Control Act of 1974. The act has been amended several times – measures such as the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as Gramm-Rudman-Hollings) and the Budget Enforcement Act of 1990 made significant amendments to it – but the 1974 legislation remains the basic blueprint for budget procedures.

The accepted rationale for the congressional budget process was to pull together the multiple committees of Congress under an overall spending plan. Before 1974, no such unifying budgetary framework existed for Congress, although the President had his own Office of Management and Budget to develop the administration's budget plan. So the Budget Act created the House and Senate Budget Committees as well as the Congressional Budget Office [CBO], and established the essential budgetary procedures.

It is interesting to note, however, that the Budget Act also was a reaction to President Nixon's use of his so-called *impoundment* authority – the authority simply to withhold funds appropriated by Congress to halt spending that was excessive or had become unnecessary. In the early 1970s, President Nixon began using impoundment in another way: to block a variety of congressional policy initiatives. Although the Supreme Court never definitively ruled on the matter, Federal courts found this use of impoundment illegal. Therefore, Congress – which at the time had no other recourse – developed the Budget Act not only to organize budget procedures, but also to limit the President's ability to impound funds.

The budget process starts in February with the submission of the President's budget. According to the Budget Act, this submission is due by the first Monday in February. The President's budget is not binding; it is considered simply the administration's proposal and request. But the submission comes in volumes of information that are useful to Congress in developing its own budget. In addition, each administration agency submits its own set of budget documents and justifications at this time.

The Budget Resolution

After the President's budget is submitted, the House and Senate Budget Committees begin developing their own versions of a *budget resolution*. Fundamentally, the budget resolution sorts out Federal spending according to 20 budget *functions*, which are simply categories of spending. For example, Function 050 deals with national defense; Function 350 deals with agriculture; Function 400 deals with transportation; and so on. [The chart on the next page gives a complete breakdown of the budget functions.]

If the traditional schedule holds, the House and Senate adopt their respective budget resolutions by early April, and then leading Budget Committee members from both chambers develop a *conference report* on the budget – a consensus agreement between House and Senate negotiators – which is typically adopted in April or May (see calendar on page 4). This conference report is the blueprint for broad spending and tax decisions that will be made during the balance of the year.

The budget resolution is not formally a law – it is a *concurrent resolution*, which does not require the President's signature. But both the House and Senate have various enforcement procedures aimed at ensuring that the resolution's directives are met. These procedures are discussed later in this paper, under the section headed CONGRESSIONAL BUDGET ENFORCEMENT. In addition, other budget limitations are set in law and are enforced through automatic spending reductions.

The budget resolution also sets in motion subsequent legislative activity that is submitted to the President and, when enacted, has the force of law. It is through these laws – specifically, appropriations bills and, if necessary, reconciliation legislation – that the congressional budget's spending and tax guidelines are implemented. [See the section headed APPROPRIATIONS AND RECONCILIATION below.]

THE BUDGET FUNCTIONS

Function 050	National Defense
Function 150	International Affairs
Function 250	General Science, Space, and Technology
Function 270	Energy
Function 300	Natural Resources and Environment
Function 350	Agriculture
Function 370	Commerce and Housing Credit
Function 400	Transportation
Function 450	Community and Regional Development
Function 500	Education, Training, Employment, and Social Services
Function 550	Health
Function 570	Medicare
Function 600	Income Security
Function 650	Social Security
Function 700	Veterans Benefits and Services
Function 750	Administration of Justice
Function 800	General Government
Function 900	Net Interest
Function 920	Allowances
Function 950	Undistributed Offsetting Receipts

TRADITIONAL CALENDAR OF CONGRESSIONAL BUDGET ACTIVITIES

[An asterisk (*) indicates a schedule provision formally written in the Budget Act. The calendar below reflects the preferred schedule of activities; some slippage and overlap frequently occur.]

First Monday in February*	Deadline for submission of President's budget.
February 15*	Deadline for submission of Congressional Budget Office report on projected spending for the forthcoming fiscal year.
Six weeks after the President's budget submission*	Deadlines for committees to submit their "views and estimates" to the Budget Committees.
March	House and Senate Budget Committees develop respective budget resolutions. House committee reports in March; full House votes on resolution roughly 1 week thereafter.
April 1*	Deadline for Senate Budget Committee to report its budget resolution. Full Senate acts on budget resolution roughly 1 week thereafter.
April 1-15	House-Senate conferees develop conference report on budget resolution, and each chamber votes on the resolution conference report.
April 15*	Congress completes action on concurrent resolution on the budget.
April 15-May	Authorizing committees develop reconciliation legislation (if necessary) and report legislation to Budget Committees. Budget Committees package reconciliation language and report to floors of their respective chambers. After passage in each chamber, House-Senate conferees develop conference report on reconciliation and bring to floors of House and Senate.
May 15*	The House may begin to consider annual appropriations bills.
June 10*	House Appropriations Committee reports the last of its annual appropriations bills.
June 15*	Congress completes action on reconciliation legislation (if necessary).
June 30*	House completes action on House appropriations bills.
July 1-September 30	Senate completes action on Senate appropriations bills. House-Senate conferees complete action on appropriations conference reports and bring to floors of House and Senate.
October 1	Fiscal year begins.

Discretionary and Mandatory Spending

The amounts in the budget resolution are translated into several sets of *allocations.* The authority for these allocations is provided under Section 302(a) of the Budget Act. For that reason, these allocations often are referred to simply as "302(a)s." One allocation goes to the Committee on Appropriations, which then subdivides the amount among its subcommittees. This second-level distribution is provided for under Section 302(b) of the Budget Act, so the suballocations often are called "302(b)s."

The Appropriations Committee deals with *discretionary* spending. Discretionary spending applies to programs whose funding must be provided each year in appropriations legislation; their spending is thus under the annual *discretion* of Congress.

The other set of allocations, also provided for under section 302(a), goes to the various authorizing committees (Agriculture, Commerce, Veterans, Ways and Means, etc.) for entitlements and other mandatory spending. These allocations tell the committees how much in total new budget authority they may spend under the budget resolution. The Ways and Means Committee also receives a comprehensive number for revenues, which determines the amount by which projected revenues may be increased or decreased.

Entitlement spending is pegged to the amount of benefits provided to each qualifying individual for each program. Eligibility requirements and benefit levels are determined under *authorizing* legislation written by the various committees with jurisdiction over the programs. If these committees make no changes in the authorizing law, then the benefits may continue to flow without change or interruption, and without formal legislation reflecting how much is to be spent on the programs. That is why entitlements are said to involve *mandatory* or *direct* spending. If Congress wishes to change the amount it spends on certain entitlements, it must rewrite the underlying authorizing law.

Appropriations and Reconciliation

The budget resolution's spending distribution is primarily implemented through two processes: appropriations and reconciliation. The appropriations process, for discretionary programs, involves passing and enacting 13 separate appropriations bills, one for each of the 13 subcommittees of the Appropriations Committee. (Congress also may bundle two or more of the appropriations measures into a single, omnibus appropriations bill).

Appropriations bills must be signed by the President to become law. If all 13 appropriations bills are not enacted by October 1, the day the new fiscal year begins, Congress may pass a *continuing resolution* to fill the gap for whatever amount of time seems necessary and appropriate. If Congress fails to pass a continuing resolution, or if the President vetoes it, and one or more regular appropriations bills are still unsigned, then the Federal Government experiences a *lapse of appropriations*. In this situation, all nonessential activities of the agencies for which no appropriation has been enacted cease until funds are provided.

Changes in entitlements and taxes involve the process called *reconciliation*. Although Congress can make entitlement and tax changes in freestanding legislation, *budget reconciliation* occurs only if the budget resolution calls for levels of entitlement spending or taxation that are different from what would occur if current law remained unchanged. For example, if welfare programs are expected to spend $110 billion in the coming fiscal year, and the budget resolution calls for limiting them to $100 billion, then Ways and Means and the other committees that share jurisdiction must rewrite parts of the programs to *reconcile* the actual outcome in spending with what is called for in the budget. If Congress adopts a reconciliation bill, it too must be signed by the President before its provisions become law.

Congress may pass freestanding authorization bills, outside the reconciliation process, that may change tax or entitlement law. Although such measures are not part of reconciliation, they remain subject to the spending and revenue levels established in the budget resolution.

CONGRESSIONAL BUDGET ENFORCEMENT

The Budget Act also contains various procedural mechanisms aimed at blocking the consideration of legislation that violates certain criteria of the budget resolution. These requirements – enforced by points of order – are the following:

- **Section 302(f)** prohibits the consideration of legislation that exceeds a committee's allocation of new budget authority. For authorizing committees, the section applies to both the budget year and the totals for the years covered by the budget resolution (typically 5 years or 10 years). For the Appropriations Committee, however, it applies only to the budget year, but it applies to each appropriations subcommittee as well as to the full committee. An exception is provided for legislation that is offset by savings above and beyond those required by the budget resolution.

- **Section 303(a)** prohibits the consideration of spending and tax legislation before the House has passed a budget resolution. This does not apply after May 15 for appropriations bills.

- **Section 311(a)(1)** prohibits the consideration of legislation that exceeds the ceiling on new budget authority and outlays or reduces revenues below the revenue floor. For bills involving revenue, the provision applies to the budget year and the total for the years covered by the budget resolution. For appropriations bills, it applies only to the budget year. The section does not apply if legislation does not exceed the 302(a) allocation of the committee of jurisdiction.

- **Section 401(a)** prohibits the consideration of legislation that provides borrowing authority, contract authority, or credit authority that is not subject to appropriations.

- **Section 401(b)(1)** prohibits the consideration of legislation creating new entitlement authority in the fiscal year preceding the budget year.

STATUTORY BUDGET CONTROLS

The Budget Enforcement Act of 1990 [BEA] revised the budget process and established stronger procedures for controlling the budget and deficit. These procedures depend on two separate disciplines: discretionary spending caps and pay-as-you-go [PAYGO] rules. Both of these disciplines are enforced separately, through automatic spending cuts known as *sequestration*.

- **Discretionary Spending Caps** control Congress' annual appropriations. Normally, discretionary spending comes in 13 separate *appropriations bills*. Supplemental appropriations may follow, as may "rescissions" (the cancellation of spending authority). The spending *caps* limit the total amounts of budget authority and outlays that may be provided for overall discretionary spending, and for spending in specific categories.

  There also are separate caps for highway programs, for mass transit programs, and for land conservation, preservation, and infrastructure improvement. These caps are scheduled to run through fiscal year 2002.

  Any breach of the caps results in a discretionary spending *sequester* in the appropriate category. [Also see APPENDIX II: BUDGET AUTHORITY, OUTLAYS, AND SPENDOUT RATES.]

- **Pay-As-You-Go [PAYGO]** applies to most "mandatory" spending and revenues. Interest, deposit insurance, and Social Security benefits are not included in PAYGO, but most other *entitlement programs* – such as Medicare, Medicaid, income assistance, military and civilian retirement, and student loans – are.

  The PAYGO rules require that any deficit-increasing or surplus-reducing PAYGO legislation must be offset by other PAYGO legislation on a session-by-session basis. If, in a particular session of Congress, the sum of all PAYGO legislation – in both spending and taxes – increases the deficit or reduces the surplus, automatic across-the-board sequesters are made to reduce spending in selected mandatory programs to compensate. The Balanced Budget Act of 1997 extended the PAYGO discipline through fiscal year 2002.

The Budget Enforcement Act contained an emergency provision so that certain urgent, necessary, and unforeseen spending would be exempt from *all* spending limits. Under the BEA, emergency designations must be agreed to by both the President and Congress. There is no statutory definition of what constitutes an emergency.

BREAKING DOWN SPENDING, REVENUES, AND PROJECTED SURPLUSES

Early this year, the Budget Committee will start writing the budget for fiscal year 2002, which begins on 1 October 2001. The current status of spending and revenues is broken down below. Figures are based on CBO's most recent estimates as published in *The Budget and Economic Outlook: Fiscal Years 2002-2001*, published in January. CBO typically provides updates of its figures in mid-summer.

Projected Surpluses

The Federal Government is expected to run *unified* surpluses – counting all spending and revenues – totaling $5.610 trillion for 2002 through 2011 (see Table 1 below). Of these amounts, $2.488 trillion of the surpluses will be in Social Security; they are technically referred to as "off-budget" surpluses. The other $3.122 trillion reflects the projected excess of revenues over spending in non-Social Security accounts. In all, the Government will collect nearly $27.9 trillion in revenues from 2002 through 2011, and will spend about $22.3 trillion.

It should be noted that these figures are highly sensitive to changes in the economy.

TABLE 1: PROJECTED SPENDING, REVENUES, AND SURPLUSES
(in billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues	2,236	2,343	2,453	2,570	2,689	2,816	2,955	3,107	3,271	3,447
On-Budget	1,703	1,782	1,864	1,950	2,040	2,136	2,243	2,360	2,489	2,628
Off-Budget	532	561	589	620	649	680	712	746	782	819
Outlays	1,923	1,984	2,056	2,137	2,184	2,243	2,320	2,396	2,475	2,558
On-Budget	1,561	1,611	1,669	1,738	1,773	1,820	1,884	1,943	2,005	2,070
Off-Budget	361	373	388	399	411	423	437	453	470	489
Surpluses	313	359	397	433	505	573	635	710	796	889
On-Budget	142	171	196	212	267	316	359	417	484	558
Off-Budget	171	188	201	221	238	257	276	294	312	331

Source: Congressional Budget Office, January 2001. (Numbers may not add due to rounding.)

Historical Trends in Outlays

Table 2 below shows Federal spending growth in selected major categories for the 25-year period of 1975 through 2000. Although the fastest growth has occurred in mandatory (entitlement) spending, nondefense discretionary spending has increased appreciably as well – by 18 percent in the period 1995 through 2000.

TABLE 2: TRENDS IN TOTAL OUTLAYS
(in billions of dollars)

	1975	1980	1985	1990	1995	2000
Defense	88	135	253	300	274	295
Nondefense Discretionary	70	142	163	200	272	321
Mandatory	170	291	448	627	818	1,030
Net Interest	23	53	130	184	232	223
Offsetting Receipts	-18	-29	-47	-59	-79	-81
Total	332	591	946	1,253	1,516	1,788

Source: Congressional Budget Office. (Numbers may not add due to rounding.)

Appendix I
SOME HISTORICAL BACKGROUND

Until fiscal year 1998, the Federal Government ran budget deficits for 29 consecutive years. The last balanced budget before that was in 1969, the last budget under President Lyndon B. Johnson. In that year, the Government collected $186.9 billion in taxes and other revenues and spent $183.6 billion, leaving a surplus of $3.2 billion. Ironically, it was President Johnson's hallmark domestic policy initiatives – known as his "Great Society" programs – that were a principal reason for the deficit problem that emerged and grew over the next 2 decades.

The Great Society programs included Medicare, Medicaid, and a variety of antipoverty initiatives and expansions. Most of these programs were "entitlements," meaning that their benefits were to be paid or provided to anyone who qualified. If the number of people qualifying for benefits grew, or if the costs of benefits increased, the Government was required to pay them regardless of whether or not the budget could cover them.

The spending and deficit problems associated with these entitlements took hold in the mid-1970s, as the Great Society programs came into full bloom. At first the deficit impact was small. By the end of the 1970s, however, the spending commitments engendered by the Great Society, coupled with a sluggish economy, double-digit inflation, and double-digit interest rates, had caused the deficit to swell.

In the meantime, Congress also passed, and President Nixon signed, the budget process legislation that formed the basis for today's budgetary procedures. This measure was called the Congressional Budget and Impoundment Control Act of 1974.

Starting in the 1980s, Congress and the White House undertook several steps to address the budget deficits. These steps included the following:

- **Gramm-Rudman-Hollings.** This law, formally the Balanced Budget and Emergency Deficit Control Act of 1985, provided specific budget deficit targets and an automatic mechanism, known as *sequestration*, for withholding funds if the deficit targets were exceeded. The goal of the act was to balance the budget in 5 years. But the act was substantially revised in 1990 because Congress and the administration judged that the amount of sequestration expected to occur was too large to accept.

- **The Budget Enforcement Act of 1990 [BEA].** This agreement between President Bush and the Democrat-controlled Congress sought to reduce the deficit by $496 billion over 5 years through a combination of spending restraints – including a 25-percent reduction in national defense forces – and tax increases. The spending slowdown was projected to contribute $338 billion to deficit reduction, and the tax increases $158 billion. The BEA also established procedural restraints on spending, including caps on appropriated "discretionary" spending (spending that is subject to annual approval by Congress) and a pay-as-you-go [PAYGO] mechanism requiring that entitlement and tax changes be deficit neutral.

- **The Omnibus Budget Reconciliation Act of 1993 [OBRA].** This was the first major budget legislation under President Clinton. OBRA 1993 projected $496 billion in deficit reduction, but it split the burden roughly evenly between spending and revenues: $255 billion in deficit reduction was to come from spending restraints, mostly by extending provisions of the 1990 BEA, and $241 billion was to come from tax increases. The act was narrowly passed by the 103d Congress and signed by the President.

- **The Balanced Budget Act of 1995.** The new Republican congressional majority in the 104th Congress pledged to balance the budget and cut taxes. The Balanced Budget Act of 1995 fulfilled the pledge, achieving a balanced budget by 2002, and reducing taxes – principally for middle-income working families – by $245 billion over 7 years. The act was vetoed by President Clinton.

- **The Balanced Budget Act of 1997 [BBA].** The President and Congress agreed to the broad outlines of this measure in early May 1997. The final legislation was passed and signed in August. The measure's spending restraint was coupled with the first tax cut in 16 years. What followed surprised most observers. First, the budget reached balance in fiscal year 1998, 4 years ahead of schedule. Second, as 1998 unfolded, estimates of the Federal budget surplus grew; by the end of the fiscal year, the surplus had reached $70 billion.

  The situation has continued improving since then, with the Government running surpluses in both Social Security and non-Social Security accounts. Both sets of surpluses are projected to continue in the foreseeable future (see Table 1 on page 8).

Appendix II
BUDGET AUTHORITY, OUTLAYS, AND SPENDOUT RATES

Two specific terms are fundamental in discussions of Federal Government spending. One is *budget authority*, or “BA.” This term describes the amount *made available* for expenditure, but not necessarily spent. It is akin to the credit limit on a credit card. The “spending side” of the budget is often couched in terms of budget authority, and appropriations acts define their spending levels in terms of BA.

When the funds are actually spent (that is, when a check is actually written by the Treasury) it is called an *outlay.* Outlays are the measure used to determine the budget deficit or surplus.

In discretionary spending programs, budget authority and outlays rarely match up, because these programs usually cannot spend all of the money provided in appropriations bills within the fiscal year. This is especially true in major procurement or construction programs, such as transportation or defense, in which it may take 5 years or more to spend all the money appropriated in the 1st year. Therefore, for each discretionary program, the Congressional Budget Office calculates how much of the budget authority will be translated into outlays every year. This is called the “spendout rate,” and it differs from program to program. For personnel, for example, roughly 95 percent of the funds allotted are spent out within the year, and virtually all the rest is spent in the second year. For a Federal highway project, on the other hand, only about 28 percent of the funds get spent in the first year, and it takes 6 years to 9 years before all the funds are used up.

Because of the lag from budget authority to outlays, spending trends in a particular program or category of discretionary programs are reflected first in the BA, and only later in the outlays.

With entitlements, on the other hand, budget authority and outlays often do match because, by definition, the program is authorized to spend whatever it takes to meet entitlement obligations. Consequently, the BA and outlays occur at essentially the same time.

Appendix III
GLOSSARY OF KEY BUDGET TERMS

[The definitions below were developed by the Congressional Budget Office and the majority staff of the House Committee on the Budget.]

Appropriations Act – Legislation under the jurisdiction of the House and Senate Committees on Appropriations. Appropriations acts provide *budget authority* – the authority to spend money – for *discretionary* programs. Discretionary programs are those for which fixed amounts of funds are provided on a year-by-year basis. When necessary, Congress may adopt *continuing* or *supplemental* appropriations [see below]. Appropriations acts must be passed by both Houses of Congress, and signed by the President, to become law. [See also *continuing appropriation* and *supplemental appropriation.*]

Authorization – Legislation that establishes, changes, or continues a Federal program or agency. Authorizing legislation normally is a prerequisite for appropriations. For some p-rograms, mainly entitlements, the authorizing legislation itself provides the authority to incur obligations and make payments. Like appropriations acts, authorizing legislation must be passed by both Houses of Congress, and signed by the President, to become law.

Budget Authority – The legal authority to incur financial obligations that will result in the spending of Federal Government funds. When budget authority is translated into an actual disbursement of funds, the disbursements are called *outlays* [see below]. Budget authority may be provided in an authorization act or an appropriations act. Certain user fees, loans, and loan guarantees are considered to be budget authority.

Budget Function – One of 20 areas into which Federal spending and credit activity are divided. Each function also is accompanied by a function number and is further divided into *subfunctions*. The functions include areas such as National Defense [Function 050]; Transportation [Function 400]; Medicare [Function 570]; Social Security [Function 650]; and Veterans Benefits and Services [Function 700]. Also included are categories for Net Interest [function 900], Allowances [Function 920], and Undistributed Offsetting Receipts [Function 950].

Concurrent Budget Resolution – A resolution, which must be passed in identical form by both the House and Senate, that sets forth a congressional budget plan. The resolution does not require the President's signature and does not become law. To be implemented, its directives must be carried out through subsequent legislation, including appropriations and changes in tax and entitlement laws. Nevertheless, the Congressional Budget Act of 1974 established a number of mechanisms that are designed to hold spending and revenues to the guidelines in the budget resolution.

Congressional Budget Office [CBO] – A nonpartisan office serving Congress. CBO's role is to provide independent, technical economic and budgetary information to Congress. CBO was created by the Congressional Budget Act of 1974 to free Congress from relying on the administration's Office of Management and Budget [OMB] for budgetary and economic information. But CBO is *not* a mirror image of OMB. OMB serves the President and acts as an advocate for the President's policies. The Congressional Budget Office is intended to be independent and objective with regard to policy proposals. [See also *Joint Committee on Taxation*, *Office of Management and Budget*, and *scorekeeping*.]

Continuing Resolution – An appropriations act intended to continue funding for certain programs when the normal appropriations legislation for those programs has not been enacted by the start of the fiscal year.

Debt Held by the Public – Total debt issued by the Federal Government and held by nonfederal investors (including the Federal Reserve System).

Debt Service – Payment of scheduled interest obligations on outstanding debt.

Direct Spending – The Budget Enforcement Act of 1990 defines direct spending as: first, budget authority provided by an authorization (in other words, authority to spend funds without the need for an appropriations act); second, entitlement authority, including mandatory spending contained in appropriations acts; and third, the Food Stamp Program. A synonym is *mandatory spending*.

Discretionary Spending – Spending for programs whose funding levels are determined through *appropriations acts*. In these programs, Congress has the *discretion* each year to determine how many dollars will be devoted to continuing current programs and funding new ones.

Discretionary Spending Caps – Annual ceilings, running through fiscal year 2002, on budget authority and outlays for *discretionary spending*. Under the Balanced Budget Act of 1997 [BBA], there are annual spending caps for total discretionary budget authority and outlays. There also are separate caps for highway programs, mass transit programs, and for land conservation, preservation, and infrastructure improvement.

Entitlements – Programs that are required to make payments to any person, business, or unit of government that seeks the payments and meets the criteria set in law. Congress controls spending levels for these programs indirectly by defining eligibility and setting the benefit or payment rules. Once these criteria are established, however, the Government is legally required to make the payments to eligible recipients. The best-known entitlements are the major benefit programs such as Social Security and Medicare. [See also *direct spending*.]

Gross Domestic Product [GDP] – The total market value of all goods and services produced domestically during a given period. The components of GDP are consumption, gross domestic investment, government purchases of goods and services, and net exports.

Gross National Product [GNP] – The total market value of all goods and services produced in a given period by labor and property supplied by residents of a country, regardless of where the labor and property are located. GNP differs from GDP primarily by including the excess of capital income that residents earn from investments abroad over capital income that nonresidents earn from domestic investment.

Inflation – Growth in a measure of a price level, expressed as an annual rate of change.

Joint Committee on Taxation [JCT] – A nonpartisan group working under the House Ways and Means and Senate Finance Committees responsible for making all estimates of the revenue impact of tax-related legislation. [See also *Congressional Budget Office* and *scorekeeping*.]

Mandatory Spending – Another term for *direct spending*.

Means-Tested Programs – Programs that provide cash or services to people who meet a test of need based on income and assets. Most means-tested programs are entitlements – such as Medicaid, the Food Stamp Program, Supplemental Security Income [SSI], family support, and veterans' pensions – but a few, such as subsidized housing and various social services, are funded through discretionary appropriations.

Net Interest – In the Federal budget, net interest includes Federal interest payments as recorded in budget function 900. Net interest also includes, as an offset, interest income received by the Government on loans and cash balances.

Off-Budget – Spending or revenues excluded from the budget totals by law. The revenues and outlays of the two Social Security Trust Funds and the transactions of the Postal Service are off-budget and (except for discretionary Social Security administrative costs) are not included in the official surplus and debt levels of the Federal Government, and are exempt from most budgetary controls.

Office of Management and Budget [OMB] – The chief budget office in the executive branch of the Federal Government, which provides technical economic and budgetary information to the President and advocates the President's policies.

Offsetting Receipts – Funds collected by the Federal Government that are recorded as negative budget authority and outlays and credited to separate receipt accounts. More than half of offsetting receipts are intragovernmental receipts that reflect agencies' payments to retirement and other funds on behalf of their employees; those receipts simply balance payments elsewhere in the budget. An additional category of receipts (proprietary receipts) come from the public and generally represent voluntary, business-type transactions. The largest items are the premiums for Supplementary Medical Insurance (Part B of Medicare), timber and oil lease receipts, and proceeds from the sale of electric power.

Outlays – Spending to fulfill a Federal obligation, generally by issuing a check or disbursing cash. Unlike outlays for other categories of spending, outlays for interest on the public debt are counted when the interest is earned, not when it is paid. Outlays may be for payment obligations incurred in previous fiscal years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided during the current year.

Pay-As-You-Go [PAYGO] – A procedure designed to ensure that legislation affecting direct spending and receipts does not increase the deficit or reduce the surplus. Under the Balanced Budget Act of 1997, the PAYGO process runs through fiscal year 2002. PAYGO is enforced through sequestration procedures.

Reconciliation – A legislative process Congress uses to make tax and spending legislation conform with the targets set forth in the budget resolution – that is, to *reconcile* tax and spending legislation with the budget. The budget resolution may contain reconciliation instructions directing certain congressional committees to achieve deficit reduction through changes in tax or spending programs under their jurisdictions. Legislation to implement the reconciliation instructions is usually combined in one comprehensive bill, but may be divided into two or more bills. The reconciliation process primarily affects taxes, entitlement spending, and offsetting receipts. As a rule, decisions on discretionary programs are determined separately through the appropriations process, which also is governed by allocations in the budget resolution; but a reconciliation bill may include limits on total multiyear discretionary spending.

Rescission – The cancellation of previously authorized budget authority.

Revenues – Funds collected from the public arising from the sovereign power of the Government. Revenues consist of receipts from income taxes (individual and corporate), excise taxes, and estate and gift taxes; social insurance contributions; customs duties; miscellaneous receipts such as Federal Reserve earnings, gifts, and contributions; and fees and fines. Revenues are also known as Federal Government receipts but do not include offsetting receipts, which are recorded as negative budget authority and outlays.

Scoring – An estimate of the budget impact of proposed or enacted legislation, formally provided in a commentary from the Congressional Budget Office.

Scorekeeping – The process of estimating the budget effects of proposed or enacted legislation. In the legislative process, the House and Senate Committees on the Budget, the Congressional Budget Office [CBO], and the Joint Committee on Taxation [JCT] are responsible for scorekeeping. CBO develops the revenue and outlays baseline, which is used to estimate the cost of spending legislation. For legislation involving the Tax Code, however, the JCT estimates the revenue impact.

Sequestration – The cancellation of budgetary resources to enforce the discretionary spending caps and pay-as-you-go process. Sequestration is triggered if the Office of Management and Budget determines that discretionary appropriations exceed the discretionary spending caps or that legislation affecting direct spending and receipts increases the deficit or reduces the surplus. Changes in direct spending and receipts legislation that increase the deficit or reduce the surplus would result in reductions in funding for entitlements not otherwise exempted by law. Discretionary spending exceeding the caps would cause the cancellation of discretionary budgetary authority.

Supplemental Appropriation – An appropriation, normally adopted during the course of the fiscal year, for discretionary spending in addition to that included in previously enacted appropriations measures.

Trust Fund – A fund, designated by statute, credited with income from earmarked collections and charged with certain outlays. The Federal Government's trust funds are principally accounting mechanisms, not trust funds in the common sense of the term. Collections may come from the public (for example, taxes or user charges) or from intrabudgetary transfers. More than 150 Federal Government trust funds exist, of which the largest and best known finance several major Government benefit programs (including Social Security and Medicare) and certain infrastructure spending (the Highway and the Airport and Airway Trust Funds).